



Mozambique Tuna Bonds Fund Anti-Pirate Fleet in Surprise

By Boris Korby, Paul Burkhardt and Lyubov Pronina - Nov 12, 2013

The deal that helped one of the poorest nations raise \$850 million and bond investors lock in rates three times higher than U.S. Treasuries is also spurring concern some of the money isn't going where the buyers -- and one of the underwriters -- expected.

Two months ago, [Credit Suisse Group AG](#) and [VTB Capital Plc](#) financed a flotilla of tuna boats for Mozambique, then packaged the debt into notes for overseas investors. It turns out the fleet also includes anti-pirate patrol boats, according to the French Foreign Trade Ministry. They are capable of being equipped with 20mm cannons and military drones, according to Stratfor, a global security advisory firm. Credit Suisse is adamant that its funding wasn't used for armed boats.

"The documents mentioned only fishing boats and some training costs," said [Marco Ruijter](#), who helps oversee about \$8 billion in emerging-market bonds at ING Investment Management in The Hague and bought a piece of the debt from VTB Capital because the investment promised such high returns. The notes are backed by the African country, which is developing deposits of coal and gas.

As central banks keep interest rates at historic lows, investors are trading transparency for higher payouts. Tanzania, with an unrated \$600 million private deal, and Angola, with a \$1 billion transaction structured in a similar way to Mozambique's, also made debuts in the international debt market in the last 15 months without disclosing details that buyers of lower-paying Eurobonds would require.

Slicing Loans

Mozambique's maiden voyage in international debt markets involved the government setting up Empresa Mocambicana de Atum SA, or Mozambican Tuna Co., in August. By Sept. 27, the company had secured loans from Credit Suisse and Moscow-based VTB Capital for a combined \$850 million -- equal to 6 percent of everything produced in the country last year.

The banks sliced the loans into smaller chunks and marketed the loan participation notes to investors to fund "fishing infrastructure," according to the prospectuses. The securities aren't listed on any exchange.

Mozambican Tuna, called EMATUM in loan documents, borrowed \$500 million from Credit Suisse and \$350 million from VTB Capital without meeting money managers or listing the names of the company's chief executive officer or directors before the sale. There was no legal requirement that they do so. Moody's Investors Service rated the loan participation notes B1, four levels below investment grade. The notes, which mature in 2020, were priced to yield 8.5 percent, about six percentage points more than [Treasures](#).

'No Weapons'

The Credit Suisse and VTB Capital prospectuses say that EMATUM would also use the money for "general corporate purposes."

At no time has Credit Suisse provided financing to Mozambique, any entity in Mozambique or any other entity that includes the procurement of weapons, and the borrowers and boat contractors have confirmed to Credit Suisse that "there are no weapons or combat systems of any kind on any of the vessels being built under the EMATUM contract," [Adam Bradbery](#), a spokesman in London for the Zurich-based bank, said in an e-mailed statement. Credit Suisse has asked that they confirm that information publicly, he said.

[Makram Abboud](#), VTB Capital's chief executive officer for the Middle East and Africa, said part of the infrastructure referred to in the VTB prospectus was protection for the fishing boats.

Tuna Boats

"This is for fishing boats, for training centers, for spare parts and for patrol boats to protect fishing business and waters of Mozambique," Abboud said in an interview. "We have always said it's infrastructure to support the fishing industry. That means all infrastructure to reduce the risk of the boats being taken over by pirates the next day or stolen."

Calls to EMATUM and to the Mozambican fishing, defense and foreign ministries to independently confirm the patrol vessels would be free of weapons weren't returned.

The Mozambique company is paying 200 million euros (\$272 million) for 24 tuna boats and six patrol vessels from Cherbourg, France-based Constructions Mécaniques de Normandie SA, [known as CMN](#), French Foreign Trade Ministry spokeswoman Perrine Duglet said in an Oct. 31 e-mail. A private security company will manage the patrols, Mozambican Defense Minister [Filipe Nhussi](#) said at an Oct. 12 army graduation ceremony in the capital of Maputo.

Credit Suisse and VTB Capital representatives declined to comment on where the rest of the loan money would go. They also declined to disclose fees earned from the transactions. Officials from CMN and its parent company, Abu Dhabi Mar LLC, declined to comment.

Eurobond Disclosure

Some government officials find the disclosure process for Eurobonds too expensive and time-consuming, said [Lee Buchheit](#), a partner at Cleary Gottlieb Steen & Hamilton LLP in New York. For a sovereign that arranges a loan with a bank or group of banks, the level of disclosure “is often minimal,” Buchheit said.

Zambia, which sold \$750 million of debt in its debut Eurobond sale last year, included in the offering circular more than 50 pages of information on everything from the state of public finances to its monetary system to foreign trade. In the VTB and Credit Suisse prospectuses for the tuna company’s loan participation notes, there were three pages on EMATUM and none concerning Mozambique.

“The degree of investor scrutiny, the degree of due diligence that’s undertaken for a Eurobond is significantly higher,” said Colin Waugh, founder of SCP Africa Lda., a research and advisory firm based in Maputo. “There’s very little transparency here.”

Mozambican Navy

The six new patrol boats would be double the size of Mozambique’s Navy, which consists of three harbor control vessels and 200 sailors, according to Austin, Texas-based Stratfor.

The boats on order include three Ocean Eagle 43 models and three HSI 32 interceptors manufactured by CMN, according to Duglet of the French Foreign Trade Ministry. The [Ocean Eagle 43](#) can be fitted with 20mm or 30mm cannons, two machine guns with 360-degree coverage and a landing area for drone aircraft, according to Stratfor.

Duglet said she didn’t know whether the vessels would come equipped with weapons, be fitted with weapons later or be free of weapons.

“I don’t really pay attention, even when the government says they’re raising funds to do X, Y and Z with it,” said [Antoon de Klerk](#) of Investec Asset Management in London, who didn’t buy any of the EMATUM notes. “In terms of the actual structure, at the end of the day all you need is a sovereign guarantee, right?”

Gas Discovery

While the World Bank says the country has doubled its literacy rate and cut its infant mortality rate by almost two-thirds since its 1975 independence from Portugal, Mozambique’s 25.2 million people remain among the poorest on earth. The nation [ranks](#) 185th out of 187 in the United Nations Human Development Index this year.

Related: [Kidnappings Cast Shadow Over Mozambique’s Gas-Fueled Growth](#)

That may change. Mozambique, on Africa’s southeastern coast, is the site of the world’s largest discovery of natural gas in the past decade. Anadarko Petroleum and Eni SpA are developing a

liquefied natural gas plant that is targeted to start production in 2018.

Railway Line

Vale SA, the Rio de Janeiro-based company that is the world's biggest iron-ore producer, is building a railway line through Malawi to the port of Nacala. Mozambique is targeting coal output of 100 million tons by 2020, Mineral Resources Minister [Esperanca Bias](#) told a February conference in Cape Town.

Mozambique's degree of disclosure in loan documents was enough to justify investing in the country before its possible commodities boom, said [Stephen Bailey-Smith](#), the head of African Strategy at Standard Bank Plc in London.

"We have been recommending clients get involved as we like the longer-term structural story around aluminum, coal, gas and tourism," Bailey-Smith said by e-mail.

The country's economy [grew](#) 7.5 percent in 2012 and will expand 7 percent this year, according to the International Monetary Fund. That compares with world economic growth of 2.9 percent.

In 2009, President [Armando Guebuza](#) won a second term in office and the Front for the Liberation of Mozambique party, or Frelimo, extended its rule in landslide victories. Frelimo has governed since leading the country to independence and faces another national election next year.

Rebel Fighters

Since April, clashes between government troops and rebel fighters with the Mozambique National Resistance party, known as Renamo, have intensified. The groups fought a 17-year civil war until signing a peace pact in 1992. Renamo said the peace agreement was over following a separate Oct. 21 government attack on its base.

Renamo has no seagoing capability, and Mozambique has relied on South African vessels to patrol its waters for pirates, said Mark Schroeder, vice president of Africa Analysis for Stratfor. Now that Mozambique has "a tremendous economic interest to explore and develop resources such as natural gas, they can't outsource their maritime security to another country," he said.

EMATUM's boats would patrol an ocean bordered by wide sand beaches dotted with palms, in water where algae glows in the dark. Maputo is bustling, while shantytowns line the road to the airport, highlighting the economic disparity between urban and rural areas. More than half of Mozambicans survive on less than 50 cents a day, according to Lisa Kurbiel, a policy specialist with UNICEF in Mozambique.

Higher Yields

For investors, the yields on notes for Mozambique and other African nations may be multiples of

those for developed nations. The Federal Reserve has kept its overnight bank [lending rate](#) near zero since December 2008, while the European Central Bank has kept its benchmark at or below 1 percent since the end of 2011.

“In the case of EMATUM, a loan repackaging was the most cost-effective, time-efficient and flexible financing solution for the client and the decision to finance the project as a repackaged loan was made with the full and prior knowledge of both EMATUM, the borrower, and the Republic of Mozambique, the guarantor,” Bradbery of Credit Suisse said in an e-mail.

Angola Sale

VTB Capital helped Angola avoid the often lengthy disclosure processes required to issue debut Eurobonds last year by offering a loan at undisclosed terms and then cutting it up and selling it to investors to yield 7 percent. Angola [is ranked](#) among the world’s most corrupt governments by Berlin-based Transparency International.

Tanzania’s February debt-market debut paid 6 percentage points over the benchmark six-month London Interbank Offered Rate for the unrated seven-year bonds. The debt wasn’t offered to a wider market “presumably because private placement could be accomplished with less stringent due diligence compared with a typical Eurobond issue,” according to Moody’s.

“Everybody is looking for yield in this world,” said Waugh, of the SPC Africa advisory firm. “People want to get into Africa, and the Mozambique gas story has really hit the radar in last 18 months.”

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